

**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
JANUARY 1, 2007 TO MARCH 31, 2007**



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Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

April 6, 2007

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period January 1, 2007 through March 31, 2007.

We have changed some of our reporting of findings to begin to address matters that effect more than one agency and opportunities where agencies could improve their efficiency. Examples of this new reporting are on pages two and three of this report.

Included in this report is our first review of the Virginia Information Technologies Agency's oversight of the Public Private Partnership agreement with Northrup Grumman. Generally, we found adequate controls to manage the contract.

This report also includes the report on Assistive Technology Loan Fund Authority and the Science Museum of Virginia. These reports address how these agencies are implementing recommendations from previous audits.

We will be happy to provide you, at your request, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:sks

EXECUTIVE SUMMARY

Departments of Medical Assistance Services and Social Services for the year ended June 30, 2006

RISK ALERT

Background

During the course of our audits, we encounter issues, which are beyond the corrective action of management, and requires the action of either another agency, outside party, or the Commonwealth to change its method by which it conducts its operations. The following matter represents a risk to the Department, but the Department must rely on the Social Services and the Local Departments of Social Services.

Evaluate the Adequacy of the Eligibility Determination Process

Ensuring that only eligible recipients receive benefits is a critical control and compliance issue facing the Department. The Code of Virginia requires the Department to contract with the Virginia Department of Social Services (Social Services) to determine which individuals are eligible to participate in the Medicaid program. The Department pays Social Services just over \$50 million annually for this service.

Social Services uses its network of Local Departments of Social Services to determine an individual's Medicaid eligibility. Social Services provides Local Departments of Social Services employees training and an automated system controlled by Social Services to assist in determining eligibility. Local Departments of Social Services are units of the local government they serve and Social Services uses the funding from the Department to pay the local governments for this service.

The Department, Social Services, and the Local Departments of Social Services clearly share responsibility for determining eligibility for the Medicaid program. However, the federal government holds the Department as the Commonwealth's administrator of the Medicaid Program, as the ultimate party responsible if ineligible individuals use the program.

The federal government would require the Department to reimburse the program for both the federal and state share of any of the program's costs that are spent on an ineligible participant. Since the Department has no independent funding stream, this situation would result in additional costs to the Commonwealth's General Fund. Depending on the circumstances, the Department could attempt to retrieve the payments from an external party, however, this is unlikely. This means that eligibility errors made by Local Departments of Social Services could require the Department to make payments to the federal government. Currently, beyond the specific limited reviews required by the federal government there is no ongoing systematic process for evaluating how good Local Departments of Social Services are at determining eligibility.

The Department and Social Services are seen as equal entities within the structure of the state government, which prevents the Department from managing its agreement with Social Services as it would with an external vendor providing eligibility determination services. Furthermore, neither the Department nor Social Services believe that they have the authority or the ability to hold the Local Departments of Social Services financially accountable for not performing.

The federal government does not specifically require the Commonwealth to do an ongoing systematic review of its eligibility determination process and does not provide incentives for completing such reviews. The federal government has not established an acceptable error rate for the Medicaid program, therefore the Department is required to cover the cost of every ineligible person identified in the program, even if there was no fraud or other deceit. These inactions by the federal government do not encourage the Commonwealth to develop an ongoing process for monitoring and evaluating the effectiveness of controls surrounding the eligibility determination process.

The forced relationship between the Department, Social Services and Local Departments of Social Services puts the Medicaid program and the Commonwealth at risk that ineligible participants could enter the program and go undetected due to the failure of Local Departments of Social Services to properly determine eligibility. The Commonwealth needs to allow the managers of the Medicaid program to take cross-organizational actions to ensure the highest level of accuracy in ensuring participant eligibility.

Agencies of the Secretary of Transportation for the year ended June 30, 2006

Efficiency Issues

During our audits, we observe agency practices, processes, or procedures, which we believe management should consider for review to either improve efficiency, reduce risk, increase accuracy, or otherwise enhance their operations. These matters do not require management's immediate action and may require the investment of resources to provide long term benefit.

DEPARTMENT OF TRANSPORTATION

Improve Controls over Data Systems Reliability

Transportation uses a number of information systems to manage daily operations. Central to these systems is the agency's Financial Management System (FMS). Other systems include the Inventory Management System (IMS), Trns*port, and Fuel Management System (AFMP) and others that feed data into FMS for monitoring, reporting, and payment operations. The systems exchange information, however the completeness and accuracy of information between systems depends heavily on the reconciliation process.

One of the most critical internal control practices that an enterprise performs in order to identify misstatements and ensure accuracy in their financial records is account and system reconciliation. There are three fundamental objectives of performing efficient and timely reconciliations between systems.

- To ensure that both systems contain the same information
- To ensure each system reflects accurate information
- To identify errors or deficiencies so that they may be corrected for the current period and prevented in future periods

Transportation does have a required reconciliation process between the Commonwealth Accounting and Reporting System (CARS) and FMS. Transportation has also identified the need for reconciliations between FMS and both IMS and AFMP, which Transportation has recently implemented.

The Financial Management System also feeds information into CARS, which is the Commonwealth's official accounting record. The reconciliation between these two systems is cumbersome due to the number of transactions. The volume of transactions is not the primary cause for the reconciliation difficulties, but the manual effort required by Transportation to record transactions in FMS.

Transportation must manually record their revenue transactions since there is no automated mechanism to record these entries. Although the reconciliation is overly complex due to the nature of the systems, the process does provide sufficient mitigating controls over the manual revenue recording process, however, the process is not timely.

Transportation has identified a number of deficiencies within the Financial Management System, and has begun addressing some of the system reconciliation needs. In a study to determine the feasibility of an upgrade to this system, Transportation determined that the total cost to fix the issues would require a system upgrade and could cost approximately \$30 million.

The Commonwealth is pursuing a state-wide enterprise resource planning system for all agencies, Transportation has decided that it would not be beneficial to pursue its system upgrade and has instead devoted the funds they will have available for the upgrade to the state-wide Enterprise Resource Planning (ERP) effort. When defining deliverables and implementing the future statewide Enterprise Application system, Transportation should consider its needs to easily reconcile all of its supporting systems that will continue in use.

Review of Virginia Information Technologies Agency' Service Management Organization of the Public-Private Partnership agreement

We found that the Service Management Organization of the Virginia Information Technologies Agency (VITA) has established sufficient controls to effectively manage the Comprehensive Agreement between the Commonwealth of Virginia (Commonwealth) and Northrop Grumman (NG) as it progresses through each of three phases. Each phase has its own set of unique management controls to accommodate the environment at the time of the phase.

Current operations payments are for direct material and labor required by NG to manage the existing Commonwealth IT infrastructure. VITA pays NG a premium on its incurred direct labor and direct materials expenses, which complies with the Comprehensive Agreement. The Service Management Organization has sufficient controls to enable it to adequately review each invoice before payment.

Milestone payments are for the delivery of specified milestones set forth in the Comprehensive Agreement. Each milestone has a unique set of acceptance criteria developed and agreed-upon prior to beginning work. The Service Management Organization has adequate controls in place to ensure that it does not approve a payment until Northrop Grumman meets all mutually agreed to acceptance criteria.

The Service Management Organization contracts with CACI International to review the Partnership's performance in complying with project management best practices, a process known as Independent Verification and Validation (IV&V). The IV&V review generally consists of a review of existing program management policies and procedures as well as a means to validate, objectively, that the project products and services satisfy user needs under defined operating conditions. However, in the case of the Infrastructure Partnership Program, it is important to realize that this IV&V process does not provide third party validation that the NG products or services will satisfy Commonwealth needs.

The delivery of a complete and comprehensive Procedures Manual is one of the most critical deliverables necessary for effective management of the Commonwealth's IT infrastructure during the final phase, which begins in July 2008. The Service Management Organization will not be able to comprehensively monitor NG's performance over service deliverables without a complete and comprehensive set of procedures. This comprehensive Procedures Manual will serve as a basis for measuring and monitoring performance. The Service Management Organization is on track to have those procedures detailed in time to provide sufficient oversight and control over services provided by NG during the post-transition phase.

SPECIAL FOLLOW UP REPORTS OF PRIOR AUDITS

Assistive Technology Loan Fund Authority for the year ended June 30, 2006

During our previous audit, we reported substantial internal control and management issues at the Authority. These issues included recommending changes in legislation governing the Authority. The General Assembly enacted those changes and this is the first audit following the changes.

The Board and management have significantly improved the control environment, "the tone at the top," at the Assistive Technology Loan Fund Authority (Authority) since our December 2005 Special Review. However, there are still improvements that management and the Board need to address.

Develop a Strategic Plan

Make Use of Federal Funds

Develop a Board Governance Manual

We report these internal control matters more fully in our report.

Special Review of the Science Museum of Virginia

At the request of the Board of Trustees and the Director of the Science Museum, we agreed to conduct a special review of the policies and procedures that management and staff implemented in response to our Special Report issued in August 2006. In conducting this review, we identified the primary transaction and accounting processes and conducted a series of interviews, walk-throughs, analytical reviews, and limited tests.

Our review found that management has begun to address issues noted in the special report. We identified the following areas that management and the Board needs to address:

- Clarify the status of gift shop operations;
- Enforce small purchase charge card procedures;
- Document departures from state practice;
- Review and establish cash depositing practices; and
- Examine data system security and other computer considerations.

In reviewing and considering our comments, the Science Museum's Board of Trustees, management, and the report reader need to consider the limitations inherent within the Science Museum's internal control

structure. While all systems of internal controls are susceptible to risks of changes in processes, personnel, external factors, and failure of personnel to follow established procedures, certain factors can have a more significant effect on systems of internal controls.

These more significant factors are establishing a system of internal controls that depend on minimal controls due to limited resources, personnel, or system support. While these internal control systems can function effectively, they are subject to critical changes, which can occur with only slight disruption of resources, personnel, or system support. These environments create a system of internal controls that requires diligent oversight and review by management to react to changes in these components.

Treasurer of the City of Waynesboro collections and remittances of Commonwealth funds

During our review of the collections and remittances of Commonwealth funds by the Treasurer of the City of Waynesboro for the year ended June 30, 2006, matters came to our attention, which indicated questionable handling of both state and city funds. Based on a review of the matter, we contacted City Officials, the State Police, and appropriate State Officials.

City Officials contacted their Certified Public Accounting firm of our findings and we coordinated our activities with this firm and the State Police. While this continues to be a matter under review by the Commonwealth's Attorney, we believe that the Treasurer should take certain actions to correct the problem.

The Treasurer did not maintain sufficient internal control over state funds as described below. Our primary objectives were to test the accuracy of financial transactions recorded in the treasurer's office, evaluate the Treasurer's internal controls, and test compliance with significant state laws, regulations, and policies.

The Treasurer has responsibility for establishing and maintaining internal controls and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We believe the matters discussed below are a material weakness in internal control. A material weakness is a significant deficiency in the design or operation of internal controls that, in our judgment, could reasonably lead to the loss of revenues or assets, or otherwise compromise fiscal accountability and go undetected. These weaknesses and those discussed by the City's Certified Public Accounting Firm have resulted in the loss of state and city funds.

The report includes greater detail on the findings and recommendations. Additionally, the report includes the potential amount of the losses.

SUMMARY OF REPORTS ISSUED

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The following reports on audit were released by this Office during the period January 1, 2007 through March 31, 2007. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Executive Departments

Administration

State Board of Elections for the fiscal year ended June 30, 2006*

Commerce and Trade

Virginia Employment Commission for the year ended June 30, 2006

Education

Internal Control Report on Audit for Local Government Investment Pool, Virginia Public School Authority, Virginia College Building Authority, and Virginia Public Building Authority for the year ended June 30, 2006

Science Museum of Virginia for the year ended June 30, 2006*

Virginia College Savings Plan for the Year ending June 30, 2006

Colleges and Universities

Virginia Commonwealth University for the fiscal year ending June 30, 2006

Virginia Commonwealth University Intercollegiate Athletics Programs for the Year Ended June 30, 2006

Old Dominion University for the fiscal year ended June 30, 2006

Old Dominion University Intercollegiate Athletic Programs for the year ended June 30, 2006

George Mason University Intercollegiate Athletics Programs for the Year Ended June 30, 2006

Germanna Community College Report on Review for the year ended June 30, 2006

Virginia Highlands Community College Report on Review for the year ended June 30, 2006

James Madison University Intercollegiate Athletic Programs for the year ended June 30, 2006

Longwood University for the fiscal year ended June 30, 2006*

Longwood University Intercollegiate Athletics Programs for the Year Ended June 30, 2006

Lord Fairfax Community College Report on Review for the year ended June 30, 2006

Virginia Military Institute Intercollegiate Athletics Programs for the Year Ended June 30, 2006

New River Community College Report on Review for the ended June 30, 2006

Norfolk State University Intercollegiate Athletics Programs for the year ending June 30, 2006

Patrick Henry Community College Reaccreditation for the year ended June 30, 2006

Virginia Polytechnic Institute and State University for the year ended June 30, 2006

Virginia Polytechnic Institute and State University Intercollegiate Athletic Programs for the year ended June 30, 2006

Radford University Intercollegiate Athletics Programs for the Year Ended June 30, 2006

Southside Virginia Community College Report on Review for the year ended June 30, 2006

University of Virginia for the year ending June 30, 2006*

University Of Virginia Intercollegiate Athletics Programs for the Year Ended June 30, 2006

University of Virginia Medical Center for the year ended June 30, 2006

The College Of William and Mary in Virginia Intercollegiate Athletics Programs for the Year Ended June 30, 2006

The College of William and Mary for the year ended June 30, 2006*

The College Of William and Mary in Virginia Intercollegiate Athletics Programs for the Year Ended June 30, 2006

Local Governments

Health and Human Resources

Assistive Technology Loan Fund Authority for the year ending June 30, 2006*

Department of Aging for the two-year period ending June 30, 2006

Virginia Department of Health for the year ended June 30, 2006*

Department of Medical Assistance Services for the year ended June 30, 2006*

Natural Resources

Marine Resources Commission for the year ended June 30, 2006

Public Safety

Agencies of the Secretary of Transportation Report on Audit for the year ended June 30, 2006*

Commonwealth Attorney Services Council for the year ended June 30, 2006

Department of Forensic Science Report on Audit for the year ended June 30, 2006*

Technology

Service Management Organization of the Virginia Information Technologies Agency Interim

Review of the Information Technology Partnership February 2007

Special Reports

Commonwealth of Virginia Single Audit Report for the fiscal year ended June 30, 2006*

Comparative Report of Local Government Revenue and Expenditures for the fiscal year ended June 30, 2006 (*Only available on APA home page – www.apa.virginia.gov*)

Department of Medical Assistance Services Vulnerability Assessment and Network Penetration Test dated February 2006*

Progress Report on Selected Information Technology Projects in the Commonwealth, December 2006

Summary of Local Government Audit Findings: Enhanced 911 Special Tax Funds, February 1, 2007*

Virginia District Courts Statewide Report on Audits for the period of July 1, 2005 through June 30, 2006*

Report on the Treasurer of the City of Waynesboro for the year ended June 30, 2006*

Clerks of the Circuit Courts

Cities:

City of Bedford Clerk of the Circuit Court Turnover for the period July 1, 2006 through November 9, 2006
City of Buena Vista Circuit Court for the period October 1, 2005 through December 30, 2006
City of Chesapeake Clerk of the Circuit Court for the period January 1, 2006 through December 31, 2006
City of Lynchburg Clerk of the Circuit Court for the period July 1, 2005 through December 31, 2006
City of Petersburg Clerk of the Circuit Court for the period April 1, 2005 through June 30, 2006*
City of Williamsburg Clerk of the Circuit Court for the period October 1, 2005 through September 30, 2006

Counties:

County of Accomack Clerk of the Circuit Court for the period October 1, 2005 through September 30, 2006
County of Appomattox Clerk of the Circuit Court for the period January 1, 2005 through September 30, 2006
County of Brunswick Circuit Court for the period April 1, 2005 through December 31, 2006
County of Buchanan Clerk of the Circuit Court for the period October 1, 2005 through December 31, 2006
County of Buchanan Clerk of the Circuit Court Statement of Liabilities of James M. Bevins, Jr., for the period October 1, 2005 through December 31, 2006*
County of Culpeper Clerk of the Circuit Court for the period July 1, 2005 through December 31, 2006
County of Essex Clerk of the Circuit Court for the period July 1, 2005 through September 30, 2006
County of Henry Circuit Court for the period April 1, 2005 through September 30, 2006
County of Northumberland Clerk of the Circuit Court for the period ended December 31, 2006
County of Prince George Clerk of the Circuit Court for the period July 1, 2005 through September 30, 2006
County of Roanoke Clerk of the Circuit Court for the period April 1, 2005 through September 30, 2006
County of Spotsylvania Clerk of the Circuit Court for the period October 1, 2005 through September 30, 2006
County of Warren Circuit Court for the period October 1, 2005 through September 30, 2006

General Receivers

City of Bristol General Receiver of the Circuit Court for the period July 1, 2005 through June 30, 2006
County of Buchanan General Receiver of the Circuit Court for the period of June 1, 2005 through June 30, 2006
County of Dickenson General Receiver of the Circuit Court for the period July 1, 2005 through June 30, 2006
County of Lee General Receiver of the Circuit Court for the period of July 1, 2005 through June 30, 2006
City of Lynchburg General Receiver of the Circuit Court for the period July 1, 2005 through June 30, 2006
City of Norfolk General Receiver for the period of July 1, 2005 through June 30, 2006
County of Russell General Receiver for the period July 1, 2005 through June 30, 2006
County of Sussex General Receiver for the period July 1, 2005 through June 30, 2006
County of Washington General Receiver for the period July 1, 2005 through June 30, 2006
County of Wise General Receiver for the period July 1, 2005 through June 30, 2006

Treasurers

Cities:

City of Falls Church Turnover Audit for the period July 8, 2006 through November 16, 2006

Counties:

County of Lancaster Turnover Audit for the period July 1, 2005 through November 14, 2006

Report of the Commonwealth collections and remittances of the Treasurer, Commissioner of the Revenue, and Sheriff for the year ended June 30, 2006

Waynesboro

